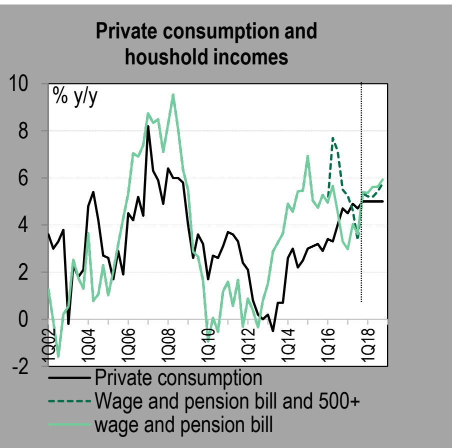
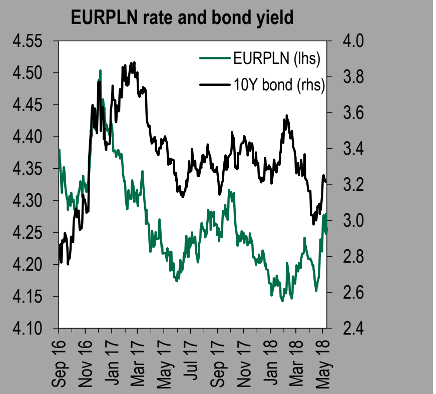
MACROscope

Polish Economy and Financial Markets

May 2018

Salutary consumption





We are days away from the release of flash 1Q GDP data and we still believe that the pace of economic growth remained close to 5% y/y at the start of 2018. There is growing evidence that the peak of the cycle is already behind us (the recent revision of the GDP data by Statistics Poland even revealed that the peak was reached a bit earlier than we thought - in 3Q17 rather than 4Q17), but in our view **the outlook for the nearest quarters remains moderately optimistic, and this year's average GDP growth (4.3%) should be only slightly below that from 2017 (4.6%)**.

Investment rebound at the end of 2017 was much smaller than initially shown by the statistical data (5.4% y/y instead of 11.3% y/y) and it seems that the private sector still remains idle in terms of investment spending. Fortunately, local governments entered the spending spree ahead of the autumn elections, which allows us to keep our investment growth forecast for this year unchanged, at almost 7%. At the same time, what seemed to be an unusually supportive external environment for Polish economy started changing towards less friendly setup, as we see growing signs of weakness in the European data. Polish exports has clearly underperformed in the recent months and it seems the net exports' contribution to GDP growth this year will be negative. The good news is that the private consumption has good reasons to remain strong or even accelerate, as the labour market is booming, households' income is rising, and the consumer sentiment is record high. **Most likely, consumption will be the main force pushing economy forward for the third year running.**

Despite positive output gap, strong consumption and tightening labour market, there is still hardly any evidence of building inflationary pressure. Not only the domestic core inflation remains low (near 0.7% y/y), but the Eurostat's core HICP for Poland fell surprisingly to deflationary zone, and prices of services decelerated. This surely keeps the Monetary Policy Council in the comfort zone with its 'wait-and-see' approach. **After few negative inflation surprises recently, the next few months may bring a rebound, as higher oil price and weaker zloty would push CPI above 2% mark for at least 2-3 months.** But it would require much bigger and more persistent impulse to see the change in the central bank's dovish approach, so we still believe the main interest rates will remain on hold at least until November 2019.

The fiscal outlook remains sanguine and as long as GDP growth remains decent and spending rule holds there is no significant risk for the public sector deficit. The European Commission's first proposals for the EU budget suggest that Poland's net inflows will be reduced but it is too early to say exactly by how much. The negotiations on the EU budget are only starting and it is still a long way before we know the final numbers.

The zloty depreciated more than many of its EM peers during the general currencies sell-off in recent weeks. Statistically, May is rather unfavourable month for the zloty but the next Polish macro data should still look quite decent, possibly helping the zloty to recover a bit. Still, there are many geopolitical risks around, limiting the room for much lower EURPLN.

The profit-taking after the earlier rally and rising geopolitical tension negatively affected the domestic bonds market in April and early May, which led to rapid yields increase. In the coming weeks we expect yields to decrease slightly, which should be supported by the expected weaker Eurozone consumption and inflation data. The risk factor for this scenario is further spike in crude oil prices, which could boost inflationary expectations.

In this issue:

Financial market on May 10, 2018:

NBP deposit rate	0.50	WIBOR 3M	1.70	EURPLN	4.2473
NBP reference rate	1.50	Yield on 2-year T-bond	1.52	USDPLN	3.5773
NBP lombard rate	2.50	Yield on 10-year T-bond	3.23	CHFPLN	3.5643

This report is based on information available until 10.05.2018.

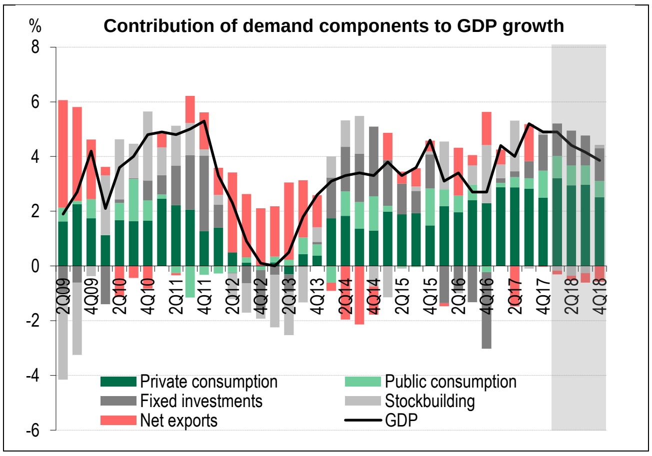
ECONOMIC ANALYSIS DEPARTMENT:

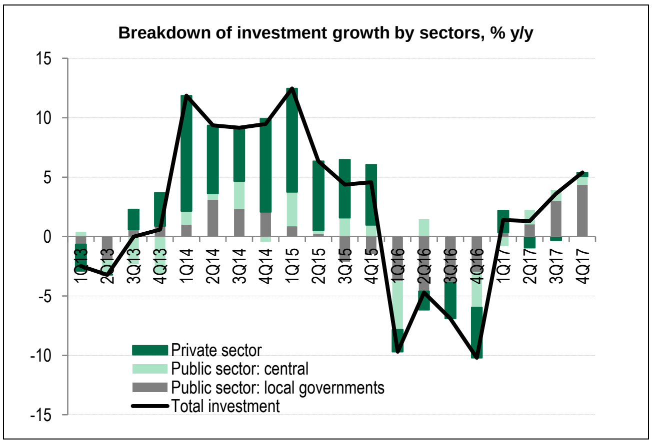
al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 5868340

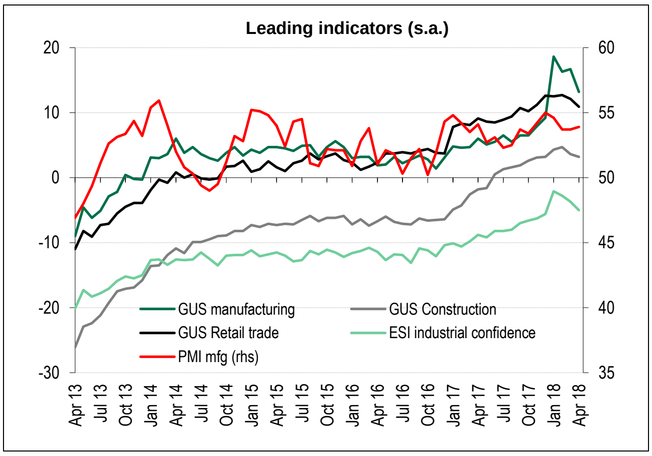
email: ekonomia@bzwbk.pl Website: skarb.bzwbk.pl

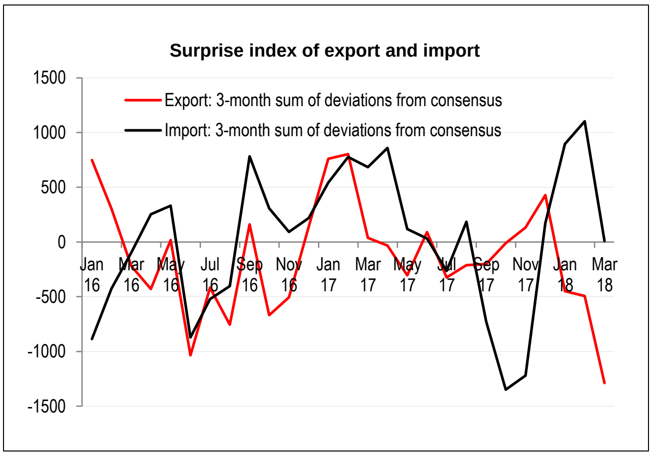
Maciej Reluga	- chief economist	+48 22 534 18 88
Piotr Bielski	- director	+48 22 534 18 87
Marcin Luziński	- economist	+48 22 534 18 85
Grzegorz Ogonek	- economist	+48 22 534 19 23
Konrad Soszyński	- economist	+48 22 534 18 86
Marcin Sulewski	- economist	+48 22 534 18 84

Economic update









Source: GUS, Eurostat, Parkiet, Markit, European Commission, NBP, BZ WBK.

In 1Q18 GDP growth still close to 5%...

▪ In mid-May the Statistics Poland is due to release flash GDP data for 1Q2018. We are expecting growth to stay at 4.9% y/y, unchanged versus 4Q17. In our view, growth breakdown will be similar to that observed recently, with private consumption being the main contributor. We are expecting investment to revive further, possibly reaching a double-digit growth.

▪ Let us remind that recently the Statistics Poland revised GDP data, bringing 4Q17 investment growth down to 5.4% y/y from the 11.3% reported previously. This means that in 2017 investment was still below 2015 level. The revision was mostly applied to investment in non-housing structures (-7.6pp from total investments), housing structures (+4.0pp) as well as other machinery and weapons (-3.5pp). Investment was driven almost solely by the public sector (+32.1% y/y), especially by local governments, responsible for about 4/5 of total investment growth. Investment outlays in the private sector were in stagnation (rise by 1.6% y/y).

▪ Downward revision of 4Q17 investment showing still no signs of recovery in the private sector does not bode well for the upcoming quarters. Especially, as surveys (e.g NBP Quick Monitoring, ESI investment survey) show no major rebound in private sector investment plans in 2018. Still, we remain quite optimistic about investment growth in early 2018, given strong spending in local governments (data for January suggest a rise by 65% y/y), low statistical base and possible shifts in central govt's military spending.

… but will decelerate in the quarters to come

▪ Recent revision of GDP showed that the economic growth peaked in 3Q17 and we are expecting a further slowdown in the quarters to come, to about 4% at the year-end. Private consumption will continue to grow strongly driven by strong labour market and positive consumer confidence, but in our view investment will be decelerating given mounting capacity problems in the construction sector. Exports will also decelerate a bit given some disappointing signals from the European economy.

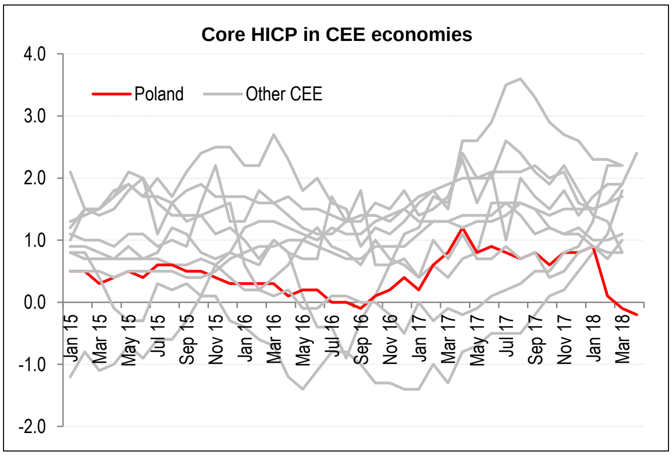
▪ Leading indicators suggest some slowdown. April's business climate surveys calculated by the Statistics Poland showed a deterioration of situation assessment in manufacturing, construction and trade. All sub-indices for manufacturing and construction have declined, including those concerning new orders, production and financial situation. Retail trade showed a lower assessment of current sales and forecasts of demand, employment and sales. The problems with finding new workers were still mounting up. ESI indicators also went down in case of main sectors. Only the PMI was an outlier in April, beating expectations and climbing to 53.9 pts.

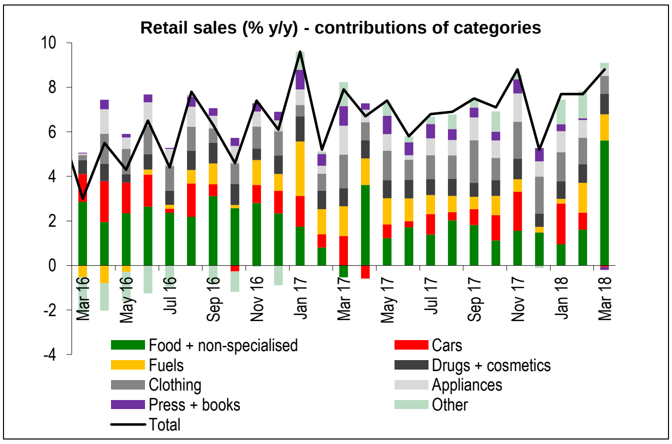
Export and industry suggest weaker foreign demand

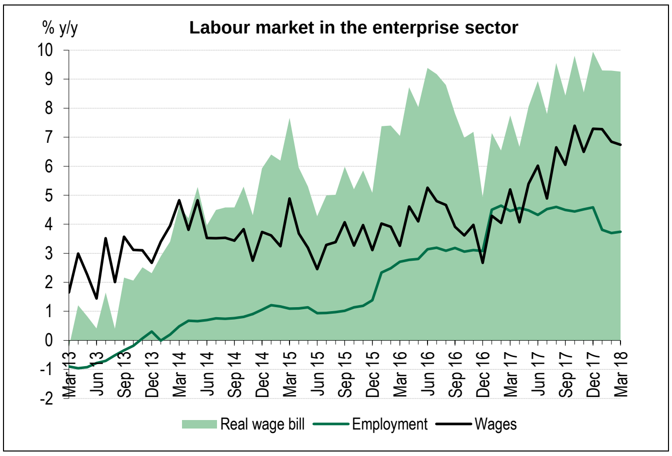
▪ In February, the current account deficit amounted to cEUR1.0bn, markedly higher than the market expected (EUR0.3bn). This surprise was primarily due to disappointing exports, which rose by 5.7% y/y and were by as much as EUR0.5bn lower than the market consensus. Actually, exports were below consensus for the third time in a row and 3-month sum of negative surprises in this variable was markedly higher than in any point in 2016 or 2017, showing that the path of exports is way lower than market analysts had expected. Product breakdown shows that most disappointing results were recorded by transport equipment and industrial supplies, i.e. by sectors being a part of global production chains and thus most correlated with the global business climate.

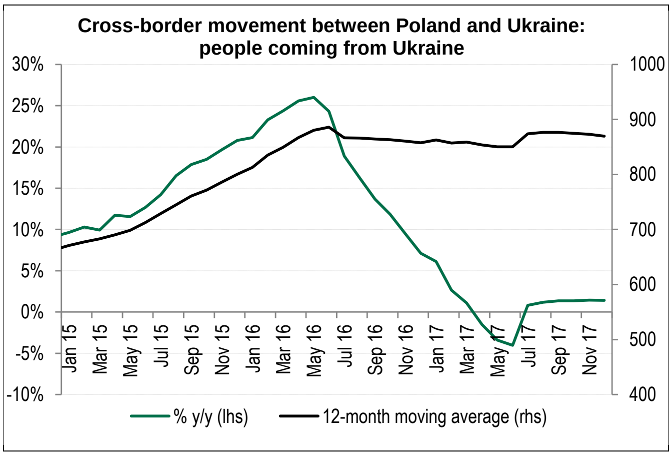
March data from the Polish industry were also on the weaker side, showing a growth of mere 1.8% y/y with 1.2pp contribution from energy sector and other segments of industry stagnating. Especially weak results were recorded by export-oriented sectors, like electronic appliances and machinery. Given recent weaker data on German output, exports, new orders and leading indicators, Polish export outlook looks clearly worse than expected.

Economic update









Source: GUS, Eurostat, BZ WBK.

Core inflation still surprising to the downside

- Polish flash CPI reading for April was 1.6% y/y, up from 1.3%. The rise was caused by non-core components. Food prices added c1pp vs 0.9pp in March. Statistics Poland showed fuel prices rising 2.8% m/m. A core CPI estimate for April based on the partial information from the flash release is 0.6-0.7% y/y, so basically unchanged vs 0.65% from March. We expect core inflation to begin systematically rising soon, possibly above 1.5% y/y this year. In our view headline inflation will recover further in the months to come, to get above 2% for a couple of months around mid-2018, and to descend to 1.8% y/y by the end of the year.
- However, behaviour of various inflation measures over the last months was rather puzzling. While a rise was widely expected, especially as regards core inflation, driven by higher wage costs, in reality most inflation gauges pointed to a slowdown or even decline in inflation tendencies. Poland's HICP excluding energy, food, alcohol and tobacco slid below zero in March 2018, clearly contradicting trends recorded in other CEE economies. The same happened with inflation in services, sector which is most vulnerable to labour costs. CPI in this sector declined to 0.7% y/y in March from 2+ prints recorded previously. Slump in prices of car insurance and package holidays was the main culprit, but even accounting of one-offs, the inflation pressure is markedly weaker than we expected.

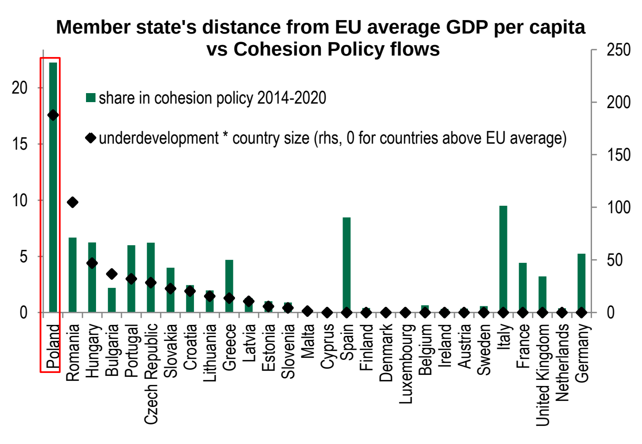
Sunday trade ban changed breakdown of retail sales

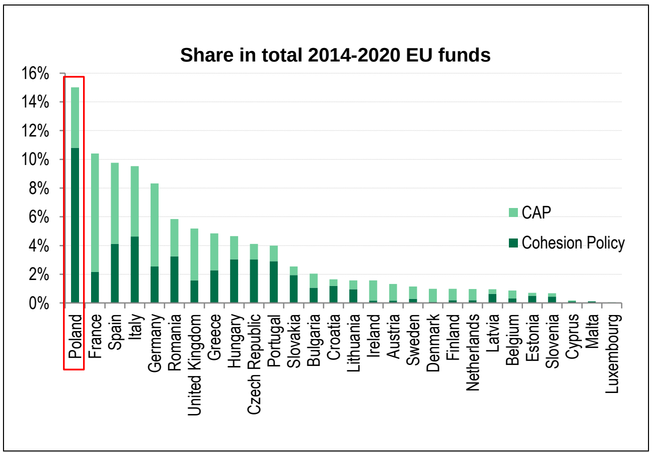
- Retail sales growth accelerated to 8.8% y/y in March from 7.7% y/y in February. Sales growth was driven by food (up 13.8% y/y – the strongest in more than a year) and general merchandise stores (up 17.4% y/y – the strongest in more than two years), supported by the early Easter. However, even taking Easter into account, these two categories seem overly strong (adding 5.6 percentage points to total sales as compared to 3.6 pp in April 2017), leading us to believe that the Sunday trade ban, introduced on March 1, was positive for sales in these categories. Evidently, consumers shopped more heavily on the other days of the week in order to acquire enough essential products for Sundays.
- Results in other categories were, in turn, quite poor. While sales of apparel were undermined by cold weather and auto sales by negative working day effect, we believe that Sunday trade ban was responsible for weak result in other sectors, including furniture, consumer electronics and household appliances. In general, we think the trade ban had a slightly negative or neutral impact on sales growth, while causing a significant shift in its breakdown.

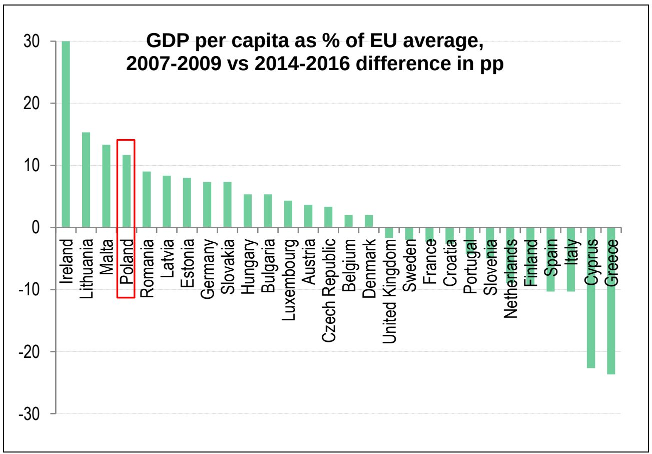
Wages did not accelerate but labour market squeeze continues

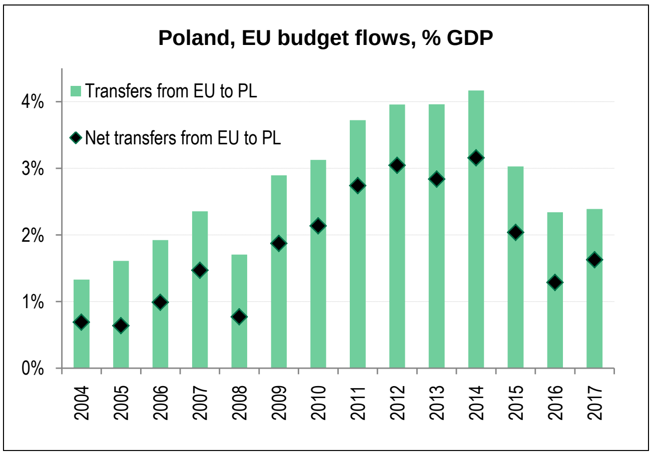
- Wage growth in the corporate sector in March remained below 7% y/y (6.7% y/y vs. 6.8% y/y in February). Calendar effects were unsupportive of wage dynamics in March. The number of working days was one fewer than in March 2017, while in February it was the same as last year. Moreover, the Easter effect may have negatively affected the data (economic activity tends to decrease just before the holiday break, which could potentially reduce the wages of piece workers). Therefore, we do not view the March result as a sign of weakening wage pressure.
- The March result was lower than we anticipated, but we still think that the tensions in the labour market will translate into an acceleration of wage growth in the coming months. Business surveys clearly show that problems with finding workers are building up. As we have argued on numerous occasion, domestic labour force reserves have almost dried up. Moreover, data on cross-border movement suggest that inflow of Ukrainian workers to Poland has stopped accelerating, encouraging Polish employers to seek workers in different countries.
- We also saw continued stabilization of employment growth at 3.7% y/y, in line with expectations. Labour supply looks to be drying up, which may lead to slower employment growth later in the year.

Fiscal policy watch









Source: NBP, Eurostat, European Commission, BZ WBK.

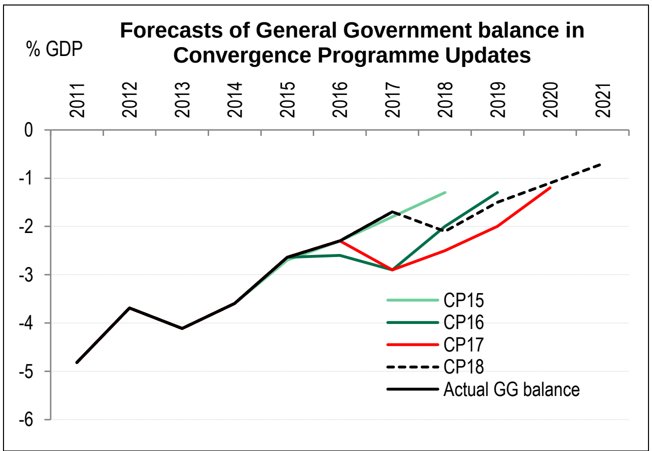
What is for Poland in EU budget after 2020

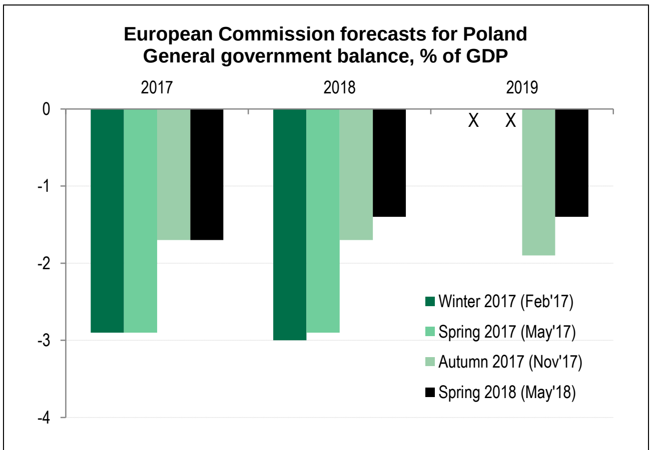
- According to the European Commission's draft proposal the EU financial framework for 2021-2017 is to amount to €1.279trn, (equal to 1.11% of Gross National Income) – nominally more than in 2014-2020 framework, despite Brexit. At first sight, the higher value seems to be good news for Poland, the largest beneficiary of the current EU budget. At a closer look, the picture does not look too rosy.
- First of all, the items Poland was benefitting from the most will decrease: cohesion policy is to receive 7% (or 12%, according to other sources) less in real terms than in the 2014-2020 budget and Common Agricultural Policy 5% (possibly even 20%) less. We still do not know the details, but it seems that reduction will not be proportional among countries - Agriculture Commissioner Phil Hogan said that direct CAP payments would be cut by 3.9% for most countries, less than 1% for Poland, but Baltic states would see a rise by c13%.
- Secondly, Poland's participation in the reduced pool of funds will be probably lower. According to the EC proposal, the distribution of 80% of funds under the cohesion policy will still be based on relative wealth (regional GDP per capita vs EU average) – and Poland made much progress in this respect (which means it could receive a smaller share). New criteria will be introduced for the remaining 20%, incl. youth unemployment, level of education, climate change, environment), possibly driving Poland's share even lower. What is more, the aims of the cohesion policy are to be broader, e.g. by including support for migrants (whom Poland refused to host, questioning of EU migration policy).
- Third, Poland's rise in welfare also means a higher contribution to the (bigger) EU budget, leading to an even larger reduction in net benefit than the expenditure side alone suggests.
- The Commission also wants to launch new programmes in the next budget, dedicated to euro zone members and euro zone candidates (Poland has not clarified its plans for euro adoption), which is another record in the EC documents that could lead to the reduction of Poland's share in the EU budget expenditures. Details how cash will be allocated between countries is expected to be announced between May 29 and June 12.
- On top of all that, the European Commission proposed to connect EU funds disbursement with the rule of law. "The new proposed rules would allow the Union to suspend, reduce or restrict access to EU funding in a manner proportionate to the nature, gravity and scope of the rule of law deficiencies". Motion to impose such restrictions will be put forward by the Commission and voted in the European Council using reversed qualified majority. It means that if, within a month, the Council does not find a certain qualified majority to overturn the sanctions proposed by the EC, they will become binding. Importantly, in the communication explaining the conditionality, the EC clearly cut off from Article 7 (and the whole Rule of Law Procedure in its current shape): "there is no comparable current programme (…) whilst some tools exist, they are not specifically designed to address situations where the implementation of Union funds could be put at risk". The current procedure, with Article 7 launched against Poland last December, seemed incapable of forcing a country into adherence to EU values, and it took years to even state a breach of rule of law.
- While the EC stressed the new regulation was not targeted at a specific country, the sample list of wrongdoings that would qualify for sanctions looks like it has been taken from the EC documents describing the situation and changes in the judiciary in Poland (and Hungary). Vera Jourova, the EU justice commissioner, explicitly admitted that were these rules already enacted, Poland would qualify for EU funds limitation or freeze.
- S&P and Fitch said that the likely cut of EU funds for Poland after 2020 and risks linked to conditionality do not call for rating action.

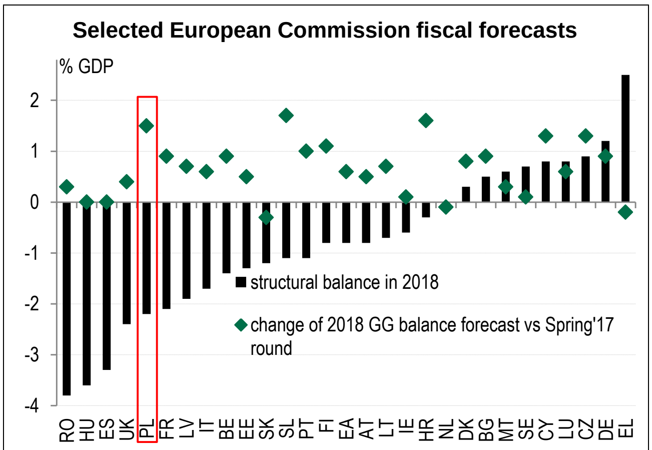
Fiscal policy watch

Main assumptions of the 2018 Convergence Programme (%y/y)

	2018	2019	2020	2021
Real GDP	3.8	3.8	3.7	3.6
Private consumption	3.8	3.5	3.5	3.5
Investment	9.1	8.4	6.4	5.7
CPI	2.3	2.3	2.5	2.5
Spending	9.3	4.8	4.2	3.0
Revenues	7.8	6.4	5.1	4.2







Source: GUS, Finance Ministry, European Commission, BZ WBK.

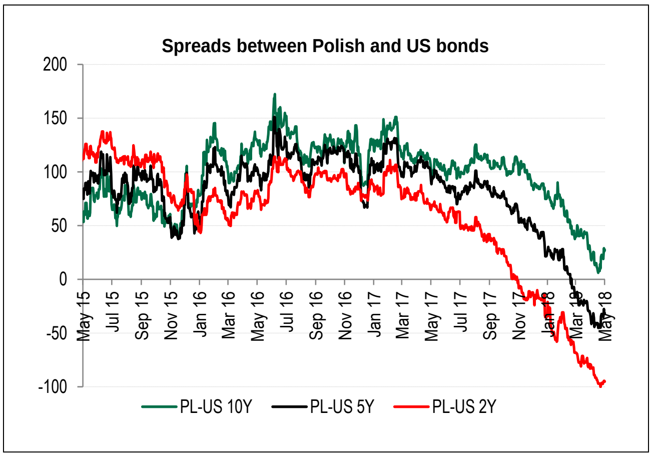
Convergence Programme Update

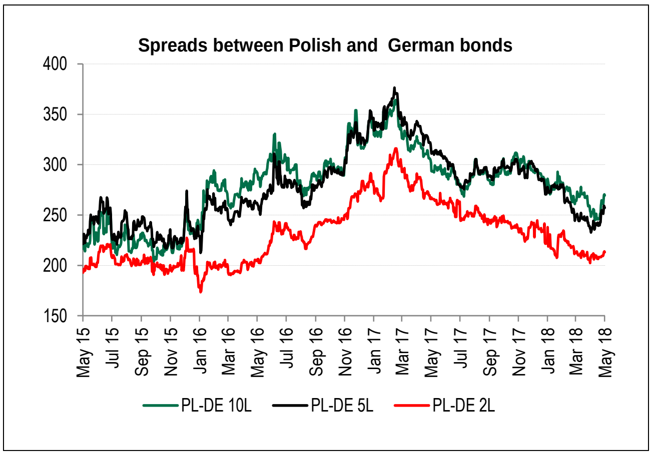
- The recent update of the government's Convergence Programme envisages an almost flat path of GDP growth, 3.8% in 2017-2018 – a rather conservative assumption, in our view. With the help of EU funds, investment outlays are to grow from 18.6% GDP this year to 20.3% in 2021 (also making potential GDP accelerate above 3.5% by 2021). The main motor of growth will be private consumption, given the high optimism of consumers and positive labour market situation. The programme assumes further growth of wages in the private sector but also pay rises in the public sector - equal to inflation, which in 2018 is forecasted at 2.3% (vs our 1.8% call). Inflation path seems the only assumption where the government may be overly optimistic (it influences estimates of tax incomes, but also the social bill due to indexation process). Despite the relatively quick ageing of the society the government assumes a growing labour participation rate. It also sees further increases of employment (by 0.7% this year, 0.2% in 2019-2020) and declines of the harmonized unemployment rate (from 4.2% expected for 2018 to 3.3% in 2021).
- The programme assumes the public expenditures will be consistent with spending rule – going up 42.3% of GDP in 2018 and then down to less than 40% by 2021. The revenue side will be strengthened by new tax compliance measures – rising from 39.6% of GDP in 2017 to 40.2% this year and 40.3% in 2019, with the ratio declining in the following years. As a result, structural general government deficit (i.e. corrected for the impact of a business cycle and discretionary actions) is to decline from the estimated 2.8% of GDP this year (2.1% was recorded in 2017) to 1.3% in 2021. Nominal GG deficits will be even lower, 2.1% in 2018, dropping to 0.7% three years later, due to the assumption of no major slowdown. As long as the spending rule is in place and there is no economic slump, the deficit is likely to be under control, even in the election years 2018-2020.
- The Convergence Programme states that VAT gap was reduced from c25% of potential revenues in 2012-2015 to 20% in 2016 and 14% in 2017, and remains cPLN25bn wide. The efforts to increase tax compliance brought extra PLN10.8bn in 2017 in VAT alone. Further actions and the development of the already introduce measures are expected to yield additional revenues of PLN10.6bn in 2018 and PLN5.9bn in 2019.
- The document does not mention a reinstatement of pre-crisis lower VAT rates in the years 2018-2021. There is also no sign of the project to remove the cap on social security contributions of the high earners. What is incorporated into the calculations is the future introduction of Employee Capital Plan (PPK). The Programme envisages a rate hike (25bp) in 2H19, two in 2020 and in 2021. EUR/PLN is assumed flat at 4.15 for the next four years.

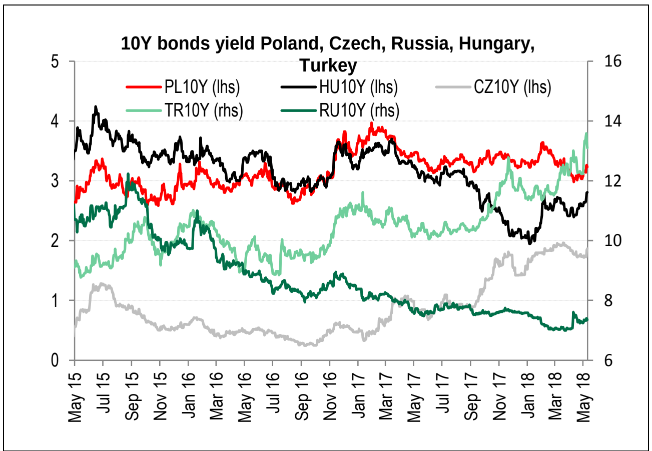
The fiscal optimism of European Commission re Poland

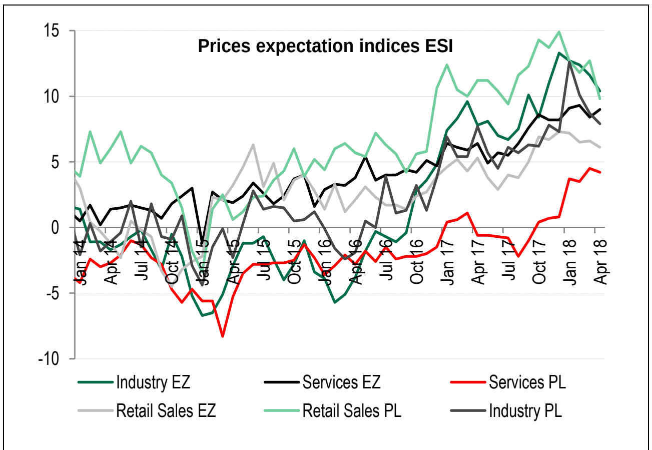
- EC spring forecasts showed another downside revision of Polish general government deficit estimate to 1.4% of GDP from 1.7% in 2018 and 2019. Interestingly, the EC predicts the structural deficit at 2.2% of GDP for 2018 and 2019 (in autumn, EC expected 2.3% and 2.5%, respectively) which means it is now more optimistic than the government. What is even more striking is that the EC estimates are based on the assumption of a VAT decrease after 2018.
- Poland saw the third largest improvement in GG balance estimate for 2018 out of all EU countries vs EC spring 2017 forecasts. Still, according to EC, Poland is going to have fifth worst structural balance in the EU in both 2018 and 2019.
- According to EC, new government plans generate an upside risk for deficit forecasts (e.g. lower CIT tax rate for small companies, more funds for roads, school kit for every pupil; our cost estimate is cPLN4.5bn p.a. or 0.2% of GDP – see our Economic Comment). Sources of uncertainty for the EC fiscal forecasts are the planned increase of tax collection and the capacity to realize public investment plans. The EC warned that shortage of labour force could discourage companies from undertaking investment activity.

Interest rate market









Source: Reuters, Bloomberg, Finance Ministry, BZ WBK.

Global sell-off push domestic yields up

▪ Over the last four or five weeks, we have observed a correction after the March domestic bonds rally, which is caused by a number of things. In April the sell-off was initialized by profit-taking which is triggered by information about upgrade of Poland's outlook by S&P to positive (and maintain the rating at BBB+). In the subsequent weeks, the rising geopolitical tension (connected with China-US and Iran-US relationship), followed by the US dollar strengthening, affected most emerging markets' debt. As a consequence, the domestic yields was also on the rise. At the beginning of May, the yields increase accelerated, when the market started to fear the president Trump's proposal to withdraw from the Nuclear agreement with Iran. As a reaction, the domestic yield curve shifted up by c20bp in the 5-10Y segment, while the front end remained relatively stable, oscillating in the range of ±3 bp. Simultaneously, the PLGB10Y spreads over USGG10Y and GDBR10Y rose significantly, as did the ASW spread across the curve.

Euro-data to strengthen bonds …

▪ In the next four or five weeks, we expect the domestic yields to decrease gradually, especially in the 5-10Y segment. This process will be a result of correction after the overreaction following the US dollar strengthening (a consequence of rising tension in the US-Iran and US-China relationship). Consequently, we think that in the first decade of June, the yields of Polish 10Y bonds will drop to 3.10-3.15% and 5Y 2.35-2.40%. This will probably be supported by expectations of weaker Eurozone retail sales data (indicated by recent PMI-retail trade reading and ESI release) and forecasted by us lower PMI-manufacturing reading for Poland. Moreover, the price expectations indices (of manufacturing and retail sectors surveys) suggested some softening of price pressures, which will probably positively influence the bonds market.

▪ The bigger than (anticipated by us) 10-15 bp falls in yields may be limited by some domestic data. Most of the "real side economy" Polish data will probably be better than the March datasets. In some cases, it could be a result of seasonal factors (e.g. the industrial production data) but the overall picture is likely to be positive for the domestic economy. We still expect strong data from the labour market, which should build expectation for the strong consumption growth and consequently they will limit the room for falls of yields. It is worth to note that the further oil prices growth (due to the geopolitical reasons) could be the risk factor in this scenario. It could be reflected in some upward correction of price expectations of the retail sales and manufacturing sector surveys and consequently in the adverse reaction of the interest rates market. However, due to the release calendar reason, this reaction would appear rather at the end of this month.

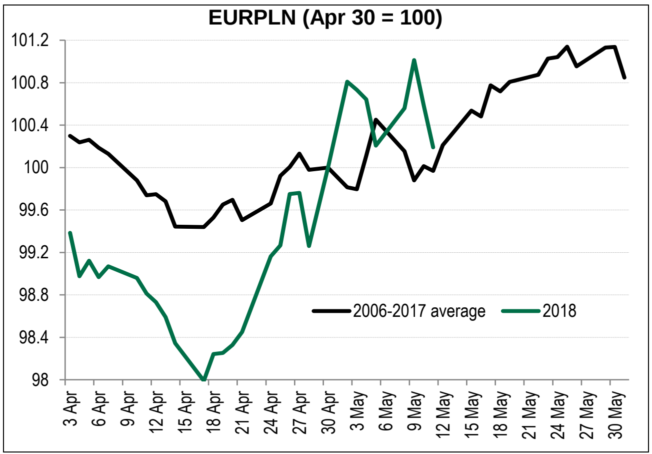
….but only temporarily

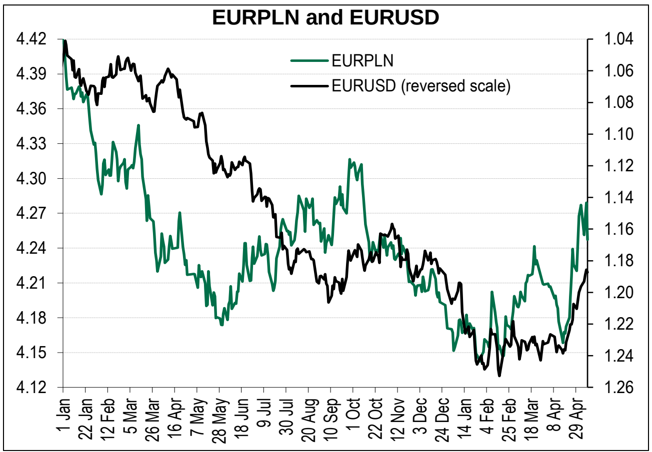
▪ In the next months we predict gradual stabilization of debt market, and in the middle of the 3Q18, we expect a more visible increase in rates. This scenario will be supported by rising domestic inflation readings. Moreover, we believe that the bonds will be negatively affected by the upward debt supply expectations in the 2H of the year, as a consequence of the higher budget expenditure needs (signaled by the Ministry of Finance) and expectations for the end of ECB asset purchasing program in September. Nevertheless, we think that at the end of 3Q the yields can not permanently rise above 3.30%.

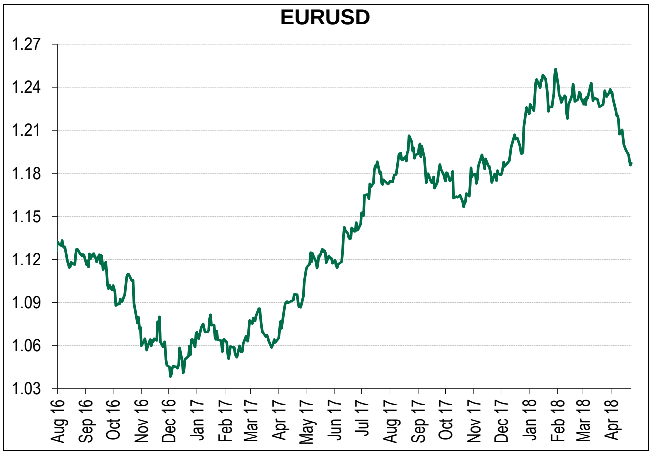
Auction

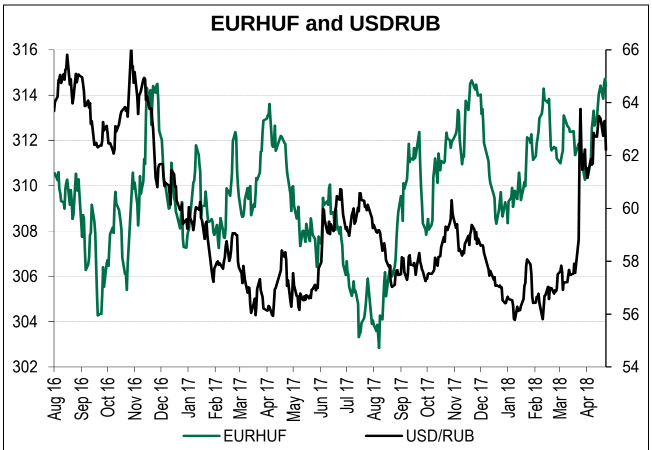
▪ In May, we expect only one regular debt auction (scheduled for 24 May), on which Ministry of Finance announced PLN3-6bn supply. On the auction, the Ministry of Finance is going to offer OK0720, PS0123, WZ0524, WS0428 and WZ0528.

Foreign exchange market









Sources: Reuters, Bloomberg, BZ WBK.

Volatile zloty

- The recent weeks brought another wave of zloty depreciation. In early April, Polish currency was gaining owing to positive fiscal data and the unexpected rating outlook upgrade by S&P. However, later on EURPLN was on the rise amid profit taking, low liquidity in early May on the Polish market and dollar appreciation. Consequently, EURPLN skyrocketed to nearly 4.30 from 4.15 and USDPLN to 3.63 from 3.35.
- The zloty depreciated more than many of its EM peers during the general currencies sell-off in early May which might have been due to the lower liquidity on the Polish market and the fact that the zloty gained much in 2017 and now may be more sensitive to any spikes in global market volatility.
- Statistically, May is rather unfavorable month for the zloty. In the last nine years, Polish currency ended that month with a gain versus the euro and the dollar only twice and WIG broad stock index rose only three times. The first chart shows that only within first two weeks of May this year EURPLN recorded a rise typical for whole month in the previous years. This gives hope that the exchange rate may now stabilize and investors take opportunity from cheap currency and higher bond yields.
- We do not expect any changes on the monetary policy front in the months to come but the upcoming macro data should still look quite decent possibly helping the zloty to recover. Recent European data did not look too encouraging and any signals that this does not have negative impact on Polish economic activity (yet?) might be positively received by investors.
- The dollar performance has also had an impact on the zloty. Like we write below, it looks there is little room for lower EURUSD in the short term and should the exchange rate rebound, this can also give a relief for the zloty and its EM peers.

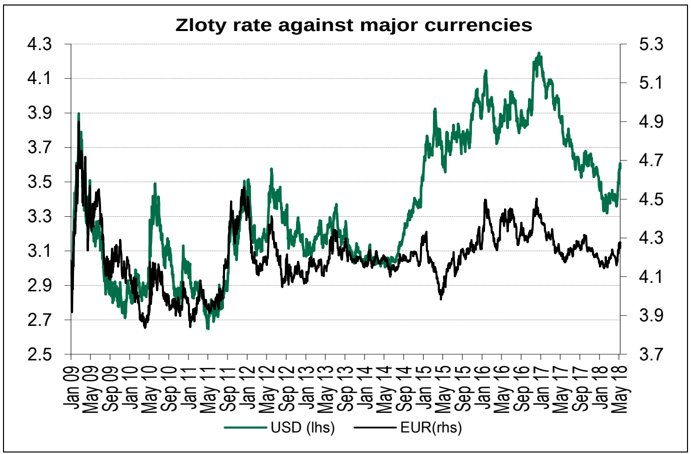
Dollar stronger for a while

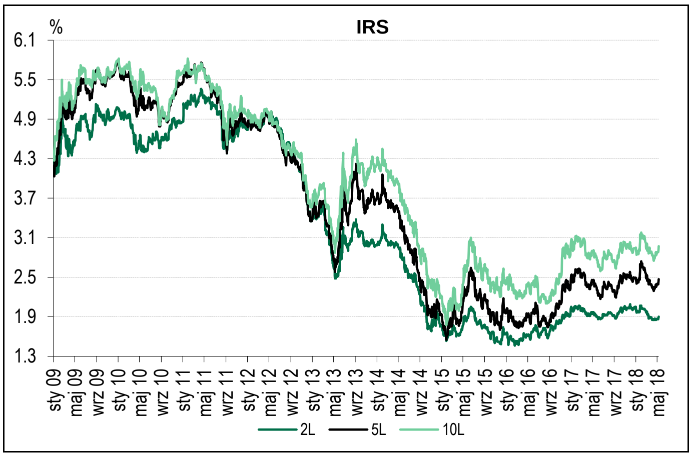
- Horizontal trend observed on the EURUSD market terminated in the recent week and the dollar started to appreciate thanks to some above-consensus US data. As a result, the exchange rate declined to c1.18, its lowest since December. The downward move was pretty fast owing to the fact that yet in April the number of net euro longs was close to the record high and appears that stop-loss orders had a big impact on the market. At the same time, European economic activity data disappointed on many fronts.
- We think the dollar could keep its gains in the short-term but soon the euro should start to recover. We assume that the recent single currency depreciation was overdone given the expected economic trend – we expect activity in the euro zone to remain decent in the months to come.

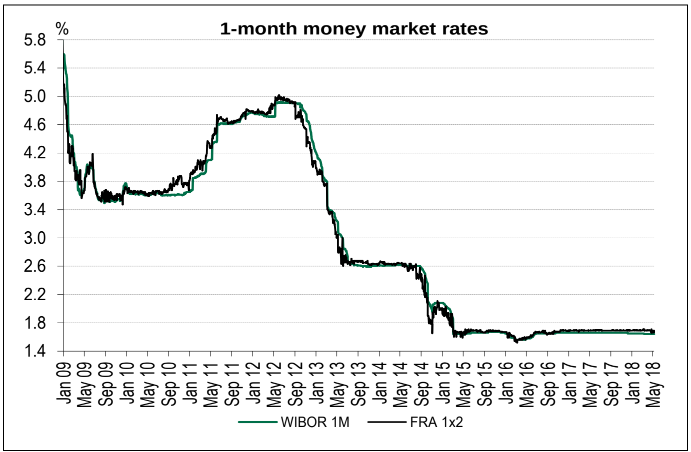
CEE currencies still unstable

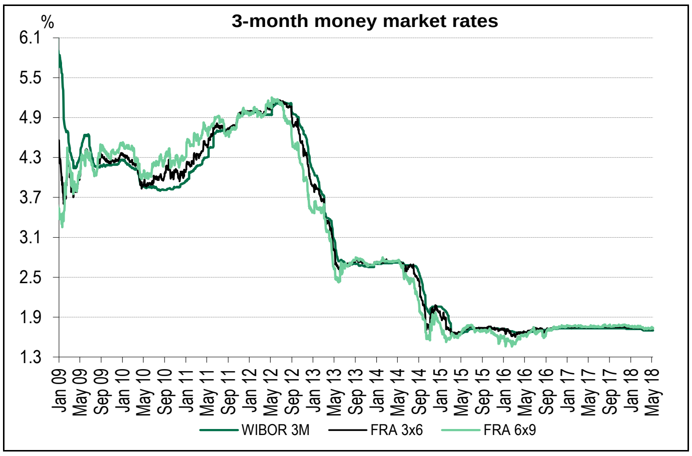
- Looking at the forint, koruna and ruble, the latter outperformed as the oil price was on the rise keeping USDRUB below April peak at 65. EURCZK jumped above 25.8 only for a while and soon corrected below 25.6. At the same time, EURHUF stayed in the up-trend and broke 315.5 for a while reaching its highest since July 2016.
- In early May, the Czech National Bank (CNB) refrained from hiking rates and the main refi rate is still at 0.75%. CNB head, Jiri Rusnok, said that one 25bp hike could be expected at the year-end but slower koruna appreciation might bring the decision forward. The central bank's EUR/CZK year-end forecast is 25.0 and we think the Czech currency may gain less resulting in earlier hike.

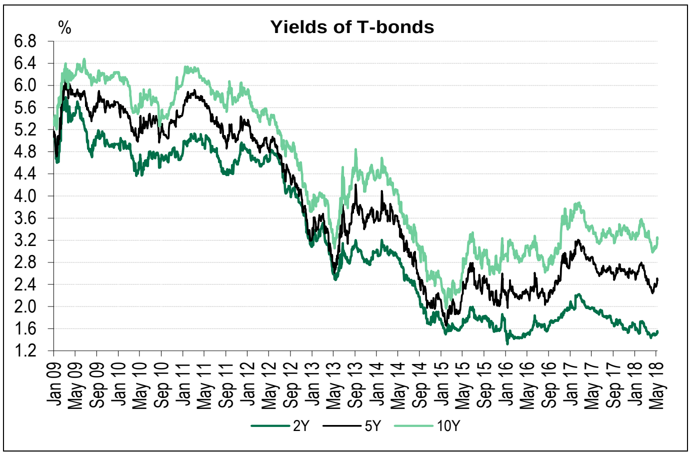
Market monitor

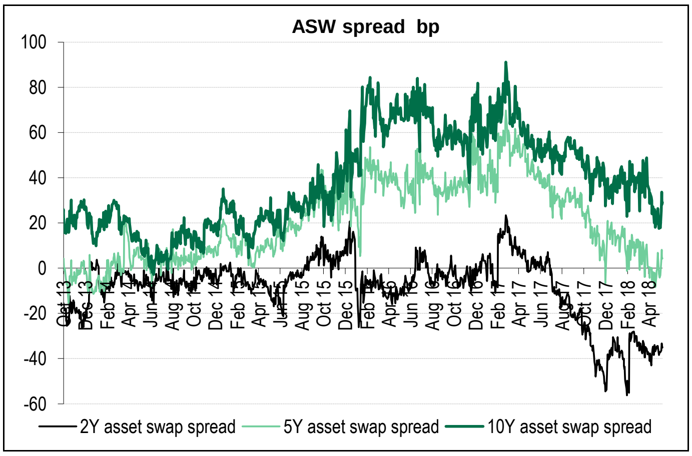




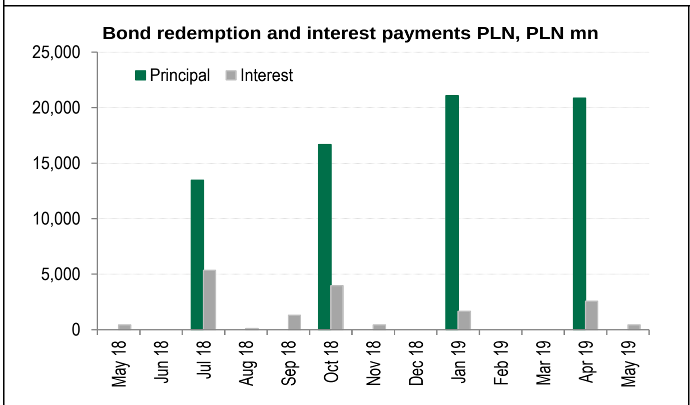


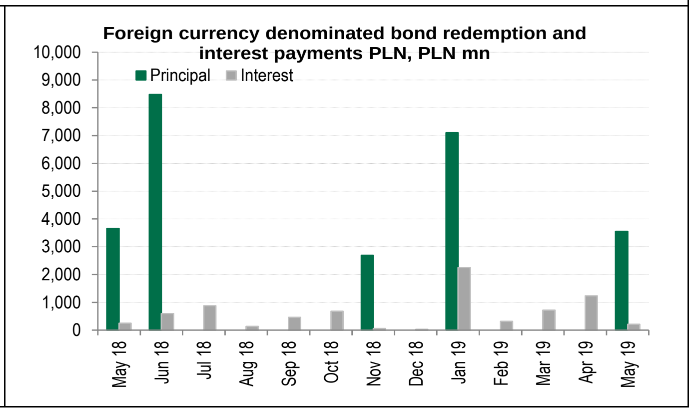






Principal and interest payments





Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
14 May ***PL: Balance of payments (Mar)***	**15** ***PL: CPI (Apr)*** ***PL: Flash GDP (Q1)*** DE: ZEW index (May) EZ: Industrial output (Mar) US: Retail sales (Apr)	**16** ***PL: MPC decision*** ***PL: Core inflation (Apr)*** EZ: CPI (Apr) US: House starts (Apr) US: Building permits (Apr) US: Industrial output (Apr)	**17** US: Philly Fed index (May)	**18** ***PL: Wages and employment (Apr)***
21 ***PL: Industrial output (Apr)*** ***PL: PPI (Apr)***	**22** HU: Central bank decision	**23** ***PL: Retail sales (Apr)*** DE: Flash PMI – services (May) DE: Flash PMI – manufacturing (May) EZ: Flash PMI – manufacturing (May) EZ: Flash PMI – services (May) US: New home sales (Apr) US: FOMC minutes	**24** ***PL: Money supply (Apr)*** US: Home sales (Apr) US: Philly Fed index (Apr)	**25** DE: Ifo index (May) US: Durable goods orders (Apr) US: Michigan index (May)
28	**29** US: Consumer confidence index (May)	**30** ***PL: Flash CPI (May)*** ***PL: GDP (Q1)*** US: ADP report (May) US: Preliminary GDP (Q1) US: Fed Beige Book	**31** EZ: Flash CPI (May) US: Consumer incomes (Apr) US: Consumer spending (Apr) US: Pending home sales (Apr)	**1 June** ***PL: MPC minutes*** ***PL: PMI – manufacturing (May)*** EZ: PMI – manufacturing (May) DE: PMI – manufacturing (May) US: ISM – manufacturing (May) CZ: Flash GDP (Q1) US: Non-farm payrolls (May) US: Unemployment rate (May)
4 US: Industrial orders (Apr)	**5** HU: GDP (Q1) DE: PMI – services (May) EZ: PMI – services (May) US: ISM – services (May)	**6** ***PL: MPC decision*** CZ: Industrial output (Apr)	**7** DE: Industrial orders (Apr)	**8** DE: Exports (Apr) DE: Industrial output (Apr) HU: CPI (May)
11 CZ: CPI (May)	**12** DE: ZEW index (Jun) US: CPI (May)	**13** ***PL: Balance of payments (Apr)*** EZ: Industrial output (Apr) US: FOMC decision	**14** ***PL: CPI (May)*** EZ: ECB decision US: Retail sales (May)	**15** ***PL: Core inflation (May)*** EZ: CPI (May) US: Flash Michigan (Jun)

Source: GUS, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB decision	25	-	8	26	-	14	26	-	13	25	-	13
MPC decision	10	7	7	11	16	6	11	-	5	3	7	5
MPC minutes	-	22	29	27	-	21	-	23	20	25	22	20
Flash GDP*	30	14	-	-	15	-	-	14	-	-	14	-
GDP*	-	28	-	-	30	-	-	31	-	-	30	-
CPI	15	15	15	12	11	11	12	10	11	12	12	11
Core inflation	16	-	16	13	14	12	13	13	12	15	13	12
PPI	19	20	19	19	21	19	18	20	19	17	20	19
Industrial output	19	20	19	19	21	19	18	20	19	17	20	19
Retail sales	19	20	20	20	22	20	19	21	20	18	21	20
Gross wages,employment	17	16	16	18	18	18	17	17	18	16	19	18
Foreign trade					about 50 working days after reported period							
Balance of payments*	-	-	30									
Balance of payments	15	13	16	13								
Money supply	23	22	22	24								

** Quarterly data. a preliminary data for January. b January and February.*
Source: GUS, NBP.

Economic data and forecasts for Poland

Monthly economic indicators

		Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18E	May 18E
PMI	pts	54.1	52.7	53.1	52.3	52.5	53.7	53.4	54.2	55.0	54.6	53.7	53.7	53.9	52.9
Industrial production	% YoY	-0.5	9.2	4.4	6.2	8.8	4.4	12.3	9.2	2.8	8.7	7.3	1.8	8.1	2.5
Construction production	% YoY	4.4	8.3	11.6	19.8	23.6	15.3	20.2	19.9	12.8	34.7	31.3	16.2	22.2	25.5
Retail sales [a]	% YoY	8.1	8.4	6.0	7.1	7.6	8.6	8.0	10.2	6.0	8.2	7.9	9.2	8.1	8.3
Unemployment rate	%	7.6	7.3	7.0	7.0	7.0	6.8	6.6	6.5	6.6	6.9	6.8	6.6	6.3	6.1
Gross wages in corporate sector	% YoY	4.1	5.4	6.0	4.9	6.6	6.0	7.4	6.5	7.3	7.3	6.8	6.7	7.4	7.1
Employment in corporate sector	% YoY	4.6	4.5	4.3	4.5	4.6	4.5	4.4	4.5	4.6	3.8	3.7	3.7	3.7	3.7
Exports (€)	% YoY	3.3	19.1	7.2	15.0	13.4	11.5	15.8	15.5	2.6	11.7	5.7	-1.4	12.2	8.0
Imports (€)	% YoY	5.0	21.5	14.3	14.6	8.7	8.9	15.4	15.9	10.9	16.3	8.3	3.9	16.1	9.5
Trade balance	EUR mn	472	-70	-202	-136	288	479	284	208	-1,175	-156	-573	-625	-69	-329
Current account balance	EUR mn	284	-202	-902	-296	311	218	436	278	-699	2,072	-1,017	-1,184	-164	-139
Current account balance	% GDP	0.1	0.0	-0.4	-0.2	0.0	0.3	0.4	0.4	0.3	0.2	0.0	-0.2	-0.2	-0.2
Budget balance (cumulative)	PLN bn	-0.9	-0.2	5.9	2.4	4.9	3.8	2.7	-2.4	-25.4	8.6	4.5	3.1	9.1	10.1
Budget balance (cumulative)	% of FY plan	1.5	0.3	-9.9	-4.0	-8.2	-6.4	-4.5	4.1	42.7	-20.6	-10.8	-7.5	-22.0	-24.4
CPI	% YoY	2.0	1.9	1.5	1.7	1.8	2.2	2.1	2.5	2.1	1.9	1.4	1.3	1.6	1.9
CPI excluding food and energy	% YoY	0.9	0.8	0.8	0.8	0.7	1.0	0.8	0.9	0.9	1.0	0.8	0.7	0.7	0.9
PPI	% YoY	4.2	2.4	1.8	2.2	3.0	3.2	3.0	1.8	0.3	0.2	-0.1	0.3	1.0	2.5
Broad money (M3)	% YoY	6.7	6.3	5.0	5.0	5.4	5.4	5.7	4.5	4.6	4.8	4.9	5.8	5.9	5.9
Deposits	%YoY	6.1	5.7	4.5	4.6	5.0	5.0	5.3	4.2	4.1	4.5	4.6	5.1	4.8	5.1
Loans	%YoY	4.5	4.8	4.5	4.5	5.0	5.1	4.7	3.7	3.6	4.0	4.2	4.3	3.7	4.4
EUR/PLN	PLN	4.24	4.20	4.21	4.24	4.26	4.27	4.26	4.23	4.20	4.16	4.16	4.21	4.19	4.26
USD/PLN	PLN	3.96	3.80	3.75	3.68	3.61	3.59	3.63	3.60	3.55	3.41	3.37	3.41	3.42	3.54
CHF/PLN	PLN	3.95	3.85	3.87	3.83	3.74	3.73	3.69	3.63	3.60	3.55	3.61	3.60	3.53	3.56
Reference rate [b]	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.72	1.72	1.72	1.71	1.70	1.70
Yield on 2-year T-bonds	%	2.01	1.98	1.94	1.89	1.80	1.73	1.71	1.60	1.69	1.62	1.73	1.56	1.52	1.47
Yield on 5-year T-bonds	%	2.89	2.81	2.62	2.67	2.67	2.61	2.69	2.62	2.64	2.63	2.73	2.46	2.33	2.32
Yield on 10-year T-bonds	%	3.44	3.37	3.21	3.32	3.35	3.27	3.39	3.40	3.29	3.34	3.51	3.27	3.08	3.05

Note: [a] in nominal terms, [b] at the end of the period.
Source: GUS, NBP, Finance Ministry, BZ WBK estimates.

Quarterly and annual economic indicators

		2015	2016	2017	2018E	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E
GDP	PLN bn	1,799.4	1,858.5	1,982.1	2,092.7	456.7	476.6	490.2	558.7	479.4	505.6	517.5	590.2
GDP	% YoY	3.8	3.0	4.6	4.3	4.4	4.0	5.2	4.9	4.9	4.4	4.2	3.9
Domestic demand	% YoY	3.3	2.2	4.7	4.8	4.1	5.8	4.0	5.1	5.3	4.8	4.7	4.6
Private consumption	% YoY	3.0	3.9	4.8	5.0	4.5	4.9	4.7	5.0	5.0	5.0	5.0	5.0
Fixed investments	% YoY	6.1	-8.2	3.4	6.7	1.4	1.3	3.6	5.4	10.1	7.9	6.4	4.9
Industrial production	% YoY	4.8	2.9	6.5	4.3	7.3	4.2	6.3	8.4	5.6	4.8	4.6	2.2
Construction production	% YoY	0.3	-14.5	13.7	17.6	5.6	8.3	19.3	17.1	25.7	23.4	17.0	10.6
Retail sales [a]	% YoY	1.5	3.9	8.2	7.5	9.6	7.6	7.9	8.0	8.4	7.9	8.5	5.4
Unemployment rate [b]	%	9.7	8.2	6.6	5.9	8.0	7.0	6.8	6.6	6.6	5.9	5.8	5.9
Gross wages in the national economy [a]	% YoY	3.3	3.8	5.7	7.2	4.1	5.0	4.9	7.1	6.2	6.7	6.7	8.2
Employment in the national economy	% YoY	0.9	2.3	3.7	2.8	3.2	3.0	3.6	3.4	2.8	2.7	2.5	2.4
Exports (€)	% YoY	8.5	3.1	12.0	8.7	13.8	9.6	13.3	11.5	5.0	10.2	10.7	9.1
Imports (€)	% YoY	5.0	2.7	13.4	11.2	15.5	13.5	10.7	14.1	9.2	12.1	13.2	10.5
Trade balance	EUR mn	2,213	2,935	821	-4,061	655	204	634	-672	-1,354	-726	-502	-1,479
Current account balance	EUR mn	-2,405	-1,254	1,497	-2,206	2,047	-816	243	23	-129	-1,429	-921	273
Current account balance	% GDP	-0.6	-0.3	0.3	-0.4	0.2	-0.4	0.3	0.3	-0.1	-0.3	-0.5	-0.4
General government balance	% GDP	-2.6	-2.3	-1.7	-2.0	-	-	-	-	-	-	-	-
CPI	% YoY	-0.9	-0.6	2.0	1.8	2.0	1.8	1.9	2.2	1.5	1.9	2.0	1.7
CPI [b]	% YoY	-0.5	0.8	2.1	1.8	2.0	1.5	2.2	2.1	1.3	2.3	1.9	1.8
CPI excluding food and energy	% YoY	0.3	-0.2	0.7	1.1	0.3	0.8	0.8	0.9	0.8	0.8	1.2	1.6
PPI	% YoY	-2.2	-0.2	2.9	1.6	4.4	2.8	2.8	1.7	0.1	2.1	2.3	1.7
Broad money (M3) [b]	% oY	9.1	9.6	4.6	7.1	7.8	5.0	5.4	4.6	5.2	5.8	6.4	7.1
Deposits [b]	%YoY	9.0	9.1	4.1	6.9	7.3	4.5	5.0	4.1	4.8	5.5	6.2	6.9
Loans [b]	%YoY	6.9	4.7	3.6	7.8	5.3	4.5	5.1	3.6	4.7	5.7	6.8	7.8
EUR/PLN	PLN	4.18	4.36	4.26	4.22	4.32	4.22	4.26	4.23	4.18	4.23	4.25	4.22
USD/PLN	PLN	3.77	3.95	3.78	3.43	4.06	3.83	3.63	3.59	3.40	3.48	3.45	3.37
CHF/PLN	PLN	3.92	4.00	3.84	3.58	4.04	3.89	3.77	3.64	3.59	3.56	3.61	3.54
Reference rate [b]	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.75	1.70	1.73	1.70	1.73	1.73	1.73	1.73	1.72	1.70	1.70	1.70
Yield on 2-year T-bonds	%	1.73	1.66	1.89	1.53	2.13	1.98	1.81	1.67	1.64	1.49	1.50	1.50
Yield on 5-year T-bonds	%	2.24	2.37	2.78	2.39	3.06	2.77	2.65	2.65	2.61	2.31	2.29	2.33
Yield on 10-year T-bonds	%	2.70	3.05	3.44	3.23	3.74	3.34	3.31	3.36	3.37	3.07	3.18	3.32

Note: [a] in nominal terms, [b] at the end of period. Source: GUS, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 10.05.2018 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

al. Jana Pawła II 17, 00-854 Warszawa fax (+48) 22 586 8340

Email: ekonomia@bzwbk.pl Web site (including Economic Service page): http://www.skarb.bzwbk.pl

Maciej Reluga* – Chief Economist

tel. (+48) 22 534 1888. Email: maciej.reluga@bzwbk.pl

Piotr Bielski*	– Director	(+48) 22 534 1887
Marcin Luziński*	– Economist	(+48) 22 534 1885
Grzegorz Ogonek*	– Economist	(+48) 22 534 1923
Konrad Soszyński*	– Economist	(+48) 22 534 1886
Marcin Sulewski*	– Economist	(+48) 22 534 1884

TREASURY SERVICES DEPARTMENT

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań

tel. (+48) 61 856 58 14/30

fax (+48) 61 856 4456

Warszawa

al. Jana Pawła II 17
00-854 Warszawa

tel. (+48) 22 586 83 20/38

fax (+48) 22 586 8340

Wrocław

ul. Rynek 9/11
50-950 Wrocław

tel. (+48) 71 369 9400

fax (+48) 71 370 2622

IMPORTANT DISCLOSURES

This report has been prepared by Bank Zachodni WBK S.A. and is provided for information purposes only. Bank Zachodni WBK S.A. is registered in Poland and is authorised and regulated by The Polish Financial Supervision Authority.

This report is issued in Poland by Bank Zachodni WBK S.A. (“BZ WBK”), in Spain by Banco Santander, S.A., under the supervision of the CNMV and in the United Kingdom by Banco Santander, S.A., London Branch (“Santander London”). Santander London is registered in the UK (with FRN 136261) and subject to limited regulation by the FCA and PRA. BZ WBK, Banco Santander, S.A. and Santander London are members of Grupo Santander. A list of authorised legal entities within Grupo Santander is available upon request.

This material constitutes “investment research” for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient’s personal circumstances. The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. Furthermore, this report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein.

Any reference to past performance should not be taken as an indication of future performance. This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BZ WBK.

Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

The material in this research report is general information intended for recipients who understand the risks associated with investment. It does not take into account whether an investment, course of action, or associated risks are suitable for the recipient. Furthermore, this document is intended to be used by market professionals (eligible counterparties and professional clients but not retail clients). Retail clients must not rely on this document.

To the fullest extent permitted by law, no Santander Group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report.

BZ WBK and its legal affiliates may make a market in, or may, as principal or agent, buy or sell securities of the issuers mentioned in this report or derivatives thereon. BZ WBK and its legal affiliates may have a financial interest in the issuers mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa.

BZ WBK and its legal affiliates may receive or intend to seek compensation for investment banking services in the next three months from or in relation to an issuer mentioned in this report. Any issuer mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company in the Santander Group is a market maker or a liquidity provider for EUR/PLN.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company of the Santander Group has been lead or co-lead manager over the previous 12 months in a publicly disclosed offer of or on financial instruments issued by the Polish Ministry of Finance or Ministry of Treasury.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company in the Santander Group expects to receive or intends to seek compensation for investment banking services from the Polish Ministry of Finance or Ministry of Treasury in the next three months.

ADDITIONAL INFORMATION

BZ WBK or any of its affiliates, salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BZ WBK or any of its affiliates’ trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

Investment research issued by BZ WBK is prepared in accordance with the Santander Group policies for managing conflicts of interest. In relation to the production of investment research, BZ WBK and its affiliates have internal rules of conduct that contain, among other things, procedures to prevent conflicts of interest including Chinese Walls and, where appropriate, establishing specific restrictions on research activity. Information concerning the management of conflicts of interest and the internal rules of conduct are available on request from BZ WBK.

COUNTRY & REGION SPECIFIC DISCLOSURES

Poland (PL): This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only and it is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Information presented in the publication is not an investment advice. Resulting from the purchase or sale of financial instrument, additional costs, including taxes, that are not payable to or through Bank Zachodni WBK S.A., can arise to the purchasing or selling party. Rates used for calculation can differ from market levels or can be inconsistent with financial calculation of any market participant. Conditions presented in the publication are subject to change. Examples presented in the publication is for information purposes only and shall be treated only as a base for further discussion.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by Banco Santander, S.A. Investment research issued by Banco Santander, S.A. has been prepared in accordance with Grupo Santander’s policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only regarded as being provided to professional investors (or equivalent) in their home jurisdiction.